COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Petition of KeySpan Energy Delivery for Approval	**)**	
of Proposed Changes in its Procurement Practices	**)**	**D.T.E. 03-85**

COMMENTS OF THE COMMONWEALTH OF MASSACHUSETTS DIVISION OF ENERGY RESOURCES

INTRODUCTION

On August 25, 2003, KeySpan Energy Delivery ("KeySpan" or "Company") filed with the Massachusetts Department of Telecommunications and Energy (the "Department") a two-page letter proposing to change its gas procurement practices. The Company's current practice is to purchase approximately 32% of its normal winter gas-supply requirements during the preceding spring and summer, which it then stores for use in the coming winter. The Company's correspondence proposes to purchase up to two-thirds of its projected normal winter supply requirements in the preceding spring and summer and lock-in prices on a percentage of its non-storage volumes equally over a twelve-month period. KeySpan asserts this approach will serve to limit retail price volatility that can occur in the natural gas marketplace.

On September 18, 2003, the Department issued an Order of Notice inviting written comments by October 2, 2003 concerning the Company's correspondence.

SUBSTANTIVE COMMENTS

DOER has consistently supported the use of physical and financial hedging tools within the natural gas marketplace. In D.T.E. 98-32-B, Investigation into the Unbundling of all Natural Gas Local Distribution Companies' Services, DOER articulated its view, which is consistent with that of the Department, of a market in which: (1) all customers have the option to purchase natural gas, interstate transportation and other upstream services from a multitude of suppliers; (2) LDCs are no longer required to provide supply or capacity to the city gate; (3) LDCs provide intrastate transportation services only; and, (4) LDCs are entirely out of the merchant function. DOER believes this kind of competitive market will provide the best conditions for both buyers and sellers of natural gas in Massachusetts. A logical tool for implementing such a market is a reasoned physical and financial hedging strategy.[1]

DOER continues to support the use of thoughtful, reasoned price risk management strategies which provide price stability and limit price volatility. However, KeySpan's correspondence, about which the Department seeks comments, so lacks salient description of its price risk management tool that it is not possible to determine whether this is a thoughtful, reasoned, well-designed tool. The following examples are merely illustrative, not exhaustive, of the dearth of information, but demonstrate that any action on the part of the Department other than initiating a full and open inquiry is, at a minimum, premature.

KeySpan proposes to hedge up to one-third of its non-fixed winter supply. KeySpan provides no information concerning how much of "up to one third" would be determined, what the decision process would be, or what the mechanism for procurement would be.

[1] As part of its comment submission to the Department in D.T.E. 01-100 (January 14, 2002) DOER recommended that LDCs employ specific price hedging tools. Had such tools been implemented last winter, Massachusetts retail gas customers would have netted in excess of $ 75 million dollars in savings.

KeySpan offers no information concerning its contracting intentions, the securing of its procurements, or the pricing index. Further, DOER believes that price risk management should not be limited to fixed price contracts, but requires a blend of physical and financial strategies. Whether and/or to what extent KySpan plans to hedge basis risk, which is of significance in New England, remains known only to KeySpan at this point. Any regulatory review of KeySpan's proposal must include consideration of better alternatives. Again, DOER emphasizes that this exemplar is offered for illustrative purposes as to the fundamental data needs required to evaluate and develop a workable price risk management mechanism.

Finally, the Department, while seeking written comments, has not, at this point, precipitated an open inquiry or a public hearing process through which to solicit any additional information from the Company. DOER believes that such an inquiry is the only way to proceed to expeditiously develop the price risk management tools that the Department has envisioned and that DOER has endorsed. Such an inquiry should be initiated only after the Company resubmits its proposal with greater detail and supporting documentation.

DOER supports the Company's willingness to consider such a strategy, but can provide no useful input without having a specific proposal upon which to comment. No such proposal has been provided by KeySpan. Further, such a proposal should be made available to the full panoply of stakeholders to solicit a range of opinion and insight upon which to formulate the best possible procurement strategy.

Accordingly, DOER can offer only two substantive comments: (1) that KeySpan provide complete information concerning its procurement proposal to the Department; and (2) that the Department initiate a public inquiry for review and comment by the full range of stakeholders. Complete information, combined with a public opportunity for review and comment, would result in a better proposal and an informed and diverse group of comments.

Respectfully submitted,

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October 2, 2003